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DE RUEHBI #0284/01 1651013  
ZNR UUUUU ZZH  
P R 131013Z JUN 08  
FM AMCONSUL MUMBAI  
TO RUEHC/SECSTATE WASHDC PRIORITY 6361  
INFO RUEHNE/AMEMBASSY NEW DELHI 7593  
RUEHBI/AMCONSUL MUMBAI 1481  
RUEHCI/AMCONSUL KOLKATA 1594  
RUEHCG/AMCONSUL CHENNAI 1786  
RUEAIIA/CIA WASHDC  
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RUCNIND/ALL INDO COLLECTIVE  
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RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC  
RUEHRC/DEPT OF AGRICULTURE USD FAS WASHINGTON DC  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS SECTION 01 OF 03 MUMBAI 000284

SENSITIVE  
SIPDIS

USDA PASS FAS/OCRA

E.O. 12958: N/A

TAGS: [EAGR](#) [ECON](#) [IN](#)

SUBJECT: MAHARASHTRA AG-EXPERTS AGREE THAT INDIAN FARMERS ARE  
SACRIFICED FOR LOW-FOOD PRICES

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11. (SBU) Summary: On June 4, a senior Foreign Agriculture Service official met with agricultural experts in Maharashtra to discuss rising global food prices and the impact on farmers of the food exports ban. There was a general consensus that the export ban harmed local farmers but that the government's priority was to ensure food security domestically and maintain low prices for the poor. Several agreed that the ban was made based on an error in projections by the Government of India and expected the government to relax the ban based on actual production figures. Also, the experts agreed that the intermediaries in the "farm-to-fork" process posed a major road block and prevented farmers from realizing increases in food prices. Removing or reducing their role would help small farmers gain a larger share of the retail price. One expert said that any and all change in India's agricultural sector will occur at a slow and gradual pace. End Summary.

Rice Export Ban "Instinctive" Reaction to Global Food Price  
Increases

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12. (SBU) On June 4, Maurice House, the Senior Advisor of the Foreign Agriculture Service, and Agriculture Minister-Counselor Holly Higgins participated in a roundtable with Maharashtra-based agriculture experts. House said that the U.S. is concerned about the global food price rises, although it remains largely insulated from the food crisis with average per capita income spent on food rising to 13 percent of the total income from 10 percent earlier. Nevertheless, House explained that the increased economic growth worldwide and rising income levels has led to an increase in the demand for food worldwide and has put a strain on U.S. ability to serve as the "storehouse of the world's grain." In addition, House pointed out that the U.S. supplies 50 percent of food aid to the world. With the large growth in the world economy, the U.S. share has shrunk in terms of global markets, but the American role in food security has remained the same without other rising nations contributing. He, along with Higgins, also expressed concern about the impact of the export bans on wheat and rice on domestic farmers. (Note: In April, India, the world's second largest exporter of rice last year, banned non-basmati rice exports and imposed export taxes on superior basmati rice to boost domestic supplies and to contain the over 7 percent inflation rate. The

government extended the export ban on wheat and pulses and also banned the export of edible oils. End Note).

13. (SBU) Veena Misra, an economist working for Mahindra & Mahindra, a leading tractor manufacturer, explained that the ban on rice exports was an immediate reaction to the international furor over rising food prices and was taken when the Indian central statistical board advanced estimates projected a decline in grain production in India. Now, she continued, the government is likely to relax the export ban with wheat production exceeding targets. However, the government's decision is contingent on a good monsoon, she added. N. Kasar, a retired professor of agriculture, noted that the central government's export policy is driven by the need to ensure that the domestic population has enough food. He agreed with Misra that the ban is temporary and likely to be relaxed soon.

14. (SBU) Udhay Deshmukh, Deputy Director (Information) of the Government of Maharashtra, admitted that the export ban has affected domestic farmers and said that the ban had dried up opportunities for certain rice strains which had export potential. Banning the export of certain crops makes the farmer's cropping and investment decisions ineffective and invalid, he continued. For example, India's soybean export prices are nearly twice as high as the domestic market price due to strong demand from China.

Curbs on Food Prices Distorts Price Signals, Invalidates Technological Innovation and Hurts Farmers

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15. (SBU) House pointed out that export bans and other restrictions on the market prices of food distort price signals to farmers and have a global impact. He believes that agriculture should be treated as a business and should be

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allowed to function under free market economic standards that enable it to prosper. He cited China as an example of a country which went from chronic famines to surplus food production by making agriculture a business by privatizing the key input industries and allowing prices to rise. He also stressed the role Beijing played in reforming the agriculture markets and building infrastructure.

16. (SBU) All the interlocutors pointed out that wheat and rice are basic staples that the Indian central government provides to the poor at subsidized prices, and are therefore central to the country's food security. Ensuring adequate supplies and low prices for these two cereals is in the government's interests, they argued. Nevertheless, Milind Murugkar, an agriculture expert who works with the NGO Pragati Abhiyan, pointed out that the public distribution system (PDS) that provides subsidized wheat and rice to the poor is flawed and virtually absent in the country (septel). He pointed out a moral dimension rooted in India's food security problem: if the government cannot take care of the poor, it has no choice but to keep food prices low. The government therefore "taxes" the farmers by not allowing food prices to rise to ensure food security for the poor, he continued. Murugkar also noted that Maharashtra, for example, is a major producer of coarse cereals which are largely rain-fed and do not need irrigation facilities. However, the PDS ignores locally-available coarse cereals and imports rice and wheat from the northern states to feed the poor in Maharashtra. He pointed out that "coarse cereals constitute 50 percent of the food consumption of BPL (below poverty line) families despite state-sponsored dumping of wheat and rice." Murugkar suggested that a better alternative to PDS is to directly transfer purchasing power to the poor through food stamps to empower them to make their own food choices.

17. (SBU) Misra believes that domestic farmers have been sacrificed in favor of consumers who live in urban areas. She said that the rising domestic food prices have not been transferred to the farmers in India because of rising transportation, fuel and input costs. She also highlighted the

role of the intermediaries in the "farm-to-fork" process who take a large share of the final sale price. Kasar claimed that a study had revealed that the farmers get a 55-60 percent share of the retail price for perishable crops but their share dipped to 35-40 percent for cereals as a major portion was grabbed by the intermediaries. Several state governments are enacting agricultural reforms and are encouraging co-operative farming and contract farming to empower the farmer, reduce the role of the intermediaries and to ensure that farmers benefit from food price increases, he added. Murugkar noted that amendment to the Agricultural Produce and Marketing Committee (APMC) Act, which enabled private industry to set up their own mandis (market places) to procure directly from the farmer, enabled farmers to receive better prices which consequently led to higher increases in agricultural productivity. High price is a key enabler of productivity increases in agriculture, he emphasized. Murugkar cited Madhya Pradesh as an example of a state where agricultural productivity and land under cultivation has increased, and where the quality of food produced has improved. (Note: MP was one of the first states to amend the APMC Act to allow direct procurement from the farmers. End Note).

18. (SBU) Misra argued that progress in agriculture reform would come about through small and gradual changes. She said that the central government's approach to the reform process was to "familiarize, demonstrate, and then move forward." She also pointed out that the Right to Information Act provides farmers access to information about their rights and benefits due them and empowers them to demand accountability, helping to curb corruption.

#### Technology Innovation Cited as Key Driver to Increase Agricultural Output

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19. (SBU) Deshmukh said that market-driven food price signals determine resource allocation. He noted that low prices for cereals caused the total acreage of cereal cultivation to drop in Maharashtra, while high prices for sugar led to an increase

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in the area under sugarcane cultivation. However, he noted that the total production of cereals has increased because of increased productivity due to high-yielding seed strains, despite decreased or constant acreage utilization. In contrast, sugarcane productivity has fallen and the increase in output is due to the increase in area under cultivation. Technology innovation is central to improving agricultural productivity, he maintained. He complained that innovations in technology are not transferred to the farm level as the input supply and extension services are weak and not available at the right time and the right price.

110. (SBU) Deshmukh believes that encouraging co-operative farming and scaling up the state-sponsored seed procurement program, where villagers gain self-sufficiency in seed requirements, will empower the farmers and make them more self-reliant. Misra agreed that aggregating farmers will yield better incentives and the savings in fixed costs will increase yields. She said that collective farming may be easier to implement in India than increasing individual farm acreage to achieve benefits of scale. However, Kasar disagreed and pointed out that farmers have an instinct to own land and to make their own decisions, so co-operative farming models may be difficult to universally implement in the country. He believes that small farms can be as efficient as large farms if they receive the key input and extension services. Technology is neutral to scale, he argued. Misra concurred and emphasized that raising agricultural productivity yields is key to increasing output. She pointed out that private investment in agriculture which slowed down as food prices declined, will once again pick up with rising food prices.

#### Maharashtra Boosters Tout State's Pro-Farm Policies

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¶11. (SBU) Deshmukh and Kasar highlighted the Maharashtra government's pro-farm programs and state government policies aimed at increasing food production and area under cultivation and improving agricultural productivity. Deshmukh noted problems like small and marginal farmers holding less than 2 hectares of land, poor quality soil, and the need for irrigation in Maharashtra. Sustained efforts to keep productivity costs low and the use of environmentally-friendly technology, however, has led to an increase in agricultural production in Maharashtra, he continued. Kasar highlighted lower interest rates on agricultural loans and several other state-sponsored financial assistance programs aimed at improving crop productivity in the state and to extend technology to uncultivated areas. He admitted that inadequate supply of inputs such as power, water, good quality seeds and fertilizers inhibit improvement in production and productivity. (Note: Maharashtra has 12-14 hours of planned power shut-downs in rural areas due to power deficit of around 25 percent of peak demand. End Note). If these inputs and extension services can be offered as a package to the farmers, then "Maharashtra will be the brightest star in the agricultural map not only in India, but in the world", he opined. He cited the vineyards and mango orchards in Maharashtra as examples of world-class farms. Misra pointed out that the average agricultural picture for India is different from that of Maharashtra and that there are some states where the state governments are apathetic to the plight of the farmers.

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